

# **New Markets Tax Credits**

## **Accessing New Markets Tax Credits for Non-Allocatees**

**California Debt and Investment Advisory Commission  
Conference  
July 23, 2004**

**Presented by  
Frank Altman  
President/Chief Executive Officer  
Community Reinvestment Fund**



**Community Reinvestment Fund**  
*Bringing Capital to Communities*

# CRF's Mission

**“To create and operate a secondary market that will provide significant new capital to community-based development lending organizations, at reasonable costs, by enabling them to sell their development loans.”**



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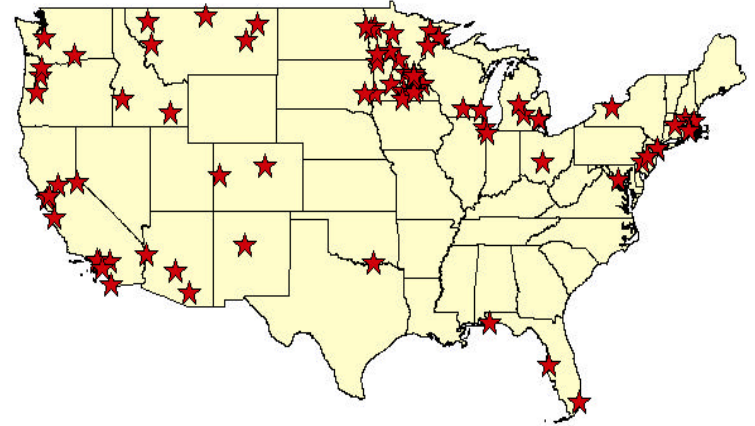
# Our Lending Partners

- **CRF does not make loans directly to business borrowers**
- **We work through local lending partners who have highly specialized and diverse missions**
- **By bringing capital to these organizations, we help them achieve their missions**



# CRF's Track Record

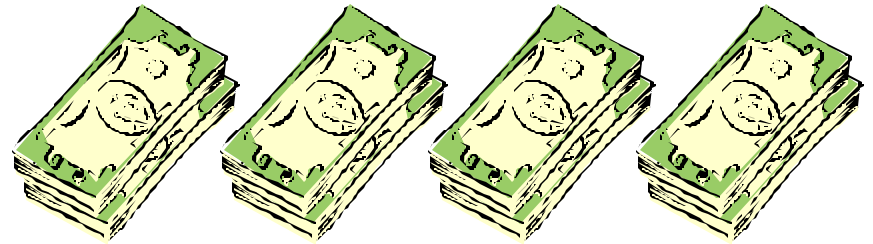
- **\$400 million provided to 110 lending partners in 24 states, District of Columbia**
- **More than 1,500 loans in 39 states**
- **Debt securities bought by banks, insurance companies and pension funds**
- **Investors include U.S. Bank, Wells Fargo, Washington Mutual, Prudential, MetLife, Methodist Pension Fund, Citibank, and many more**



# CRF's investment offerings

## **Four separate vehicles:**

- **Affordable housing**
- **Economic development: non-New Markets**
- **New Markets: Small business finance unit**
- **New Markets: Larger commercial projects finance unit**

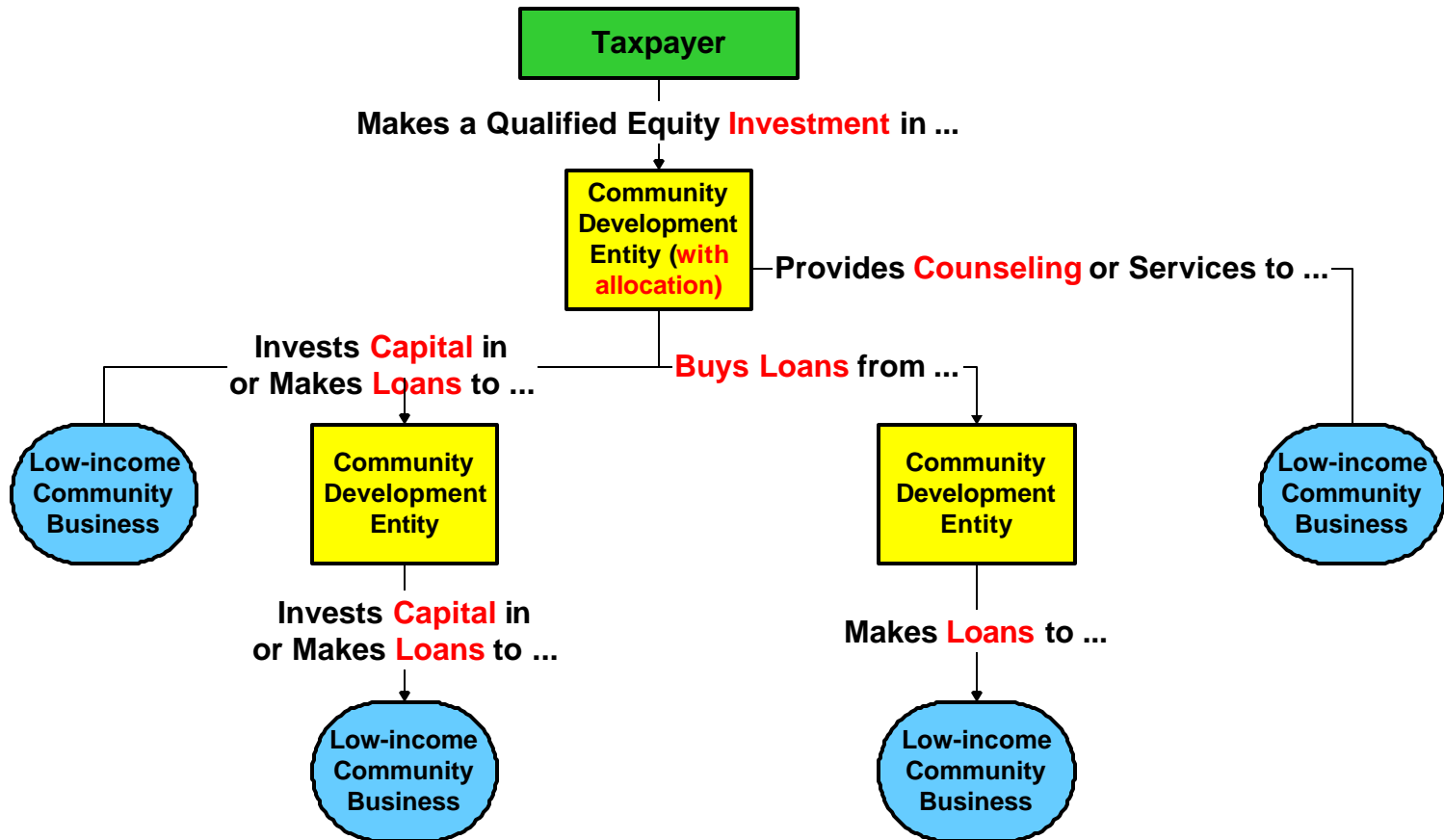


# Services

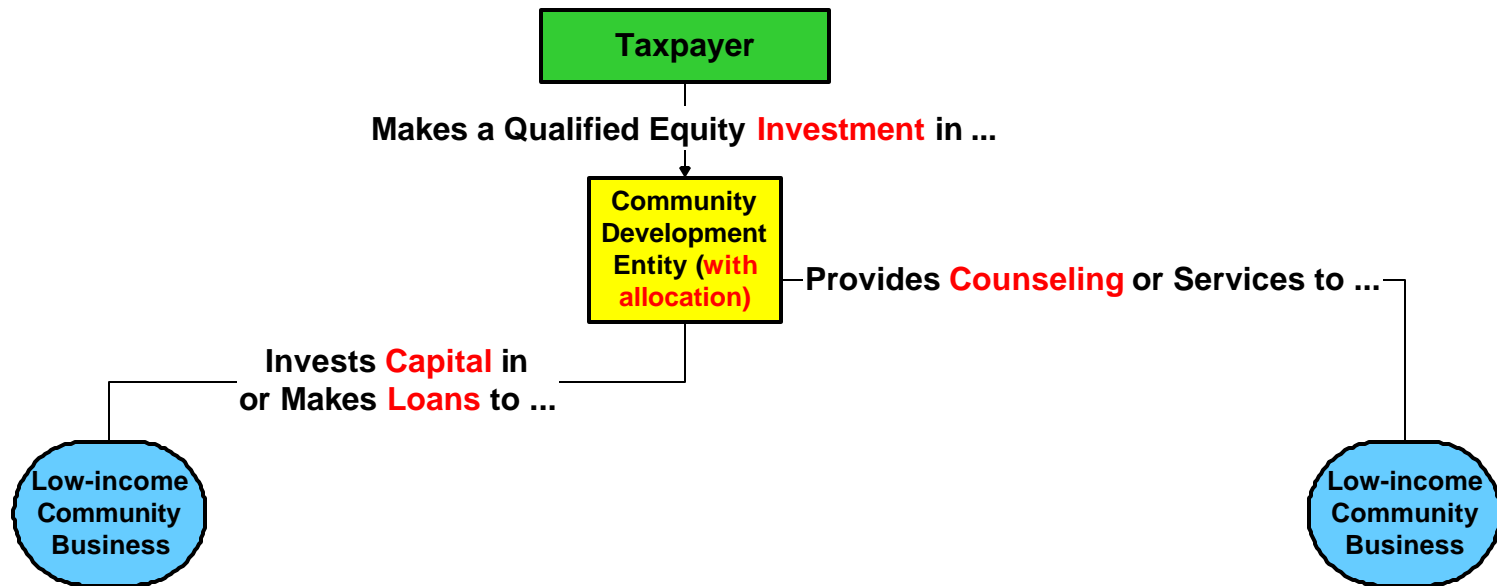
- **Capital Channels**
  - Loan purchases and related services
- **Loan Servicing**
  - Loan collections, payment processing and remittances
  - For loans CRF has purchased and for loans it services for others
- **Training and T/A**
  - Training seminars, workshops and materials
  - Document preparation



# Many paths to take to get benefit to businesses



# The “Go it Alone” approach



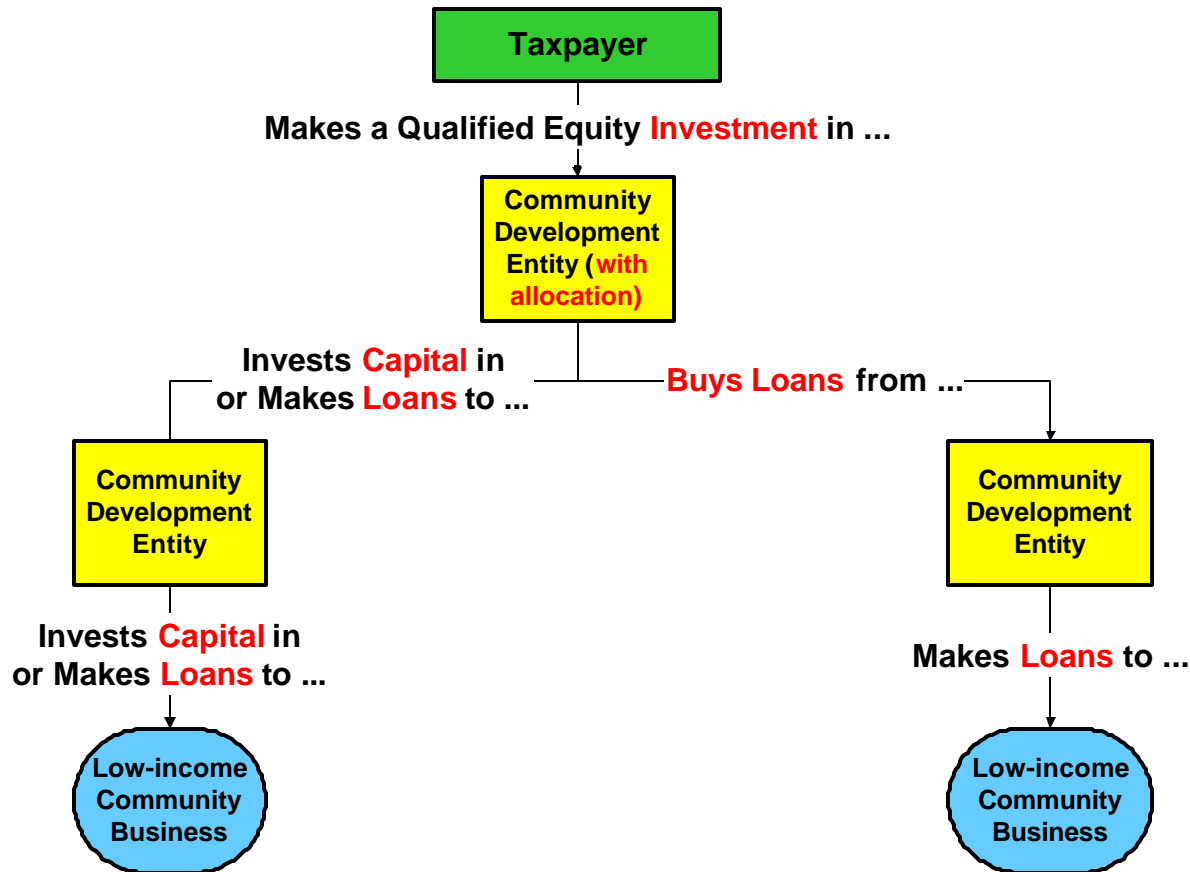


# Go It Alone Issues

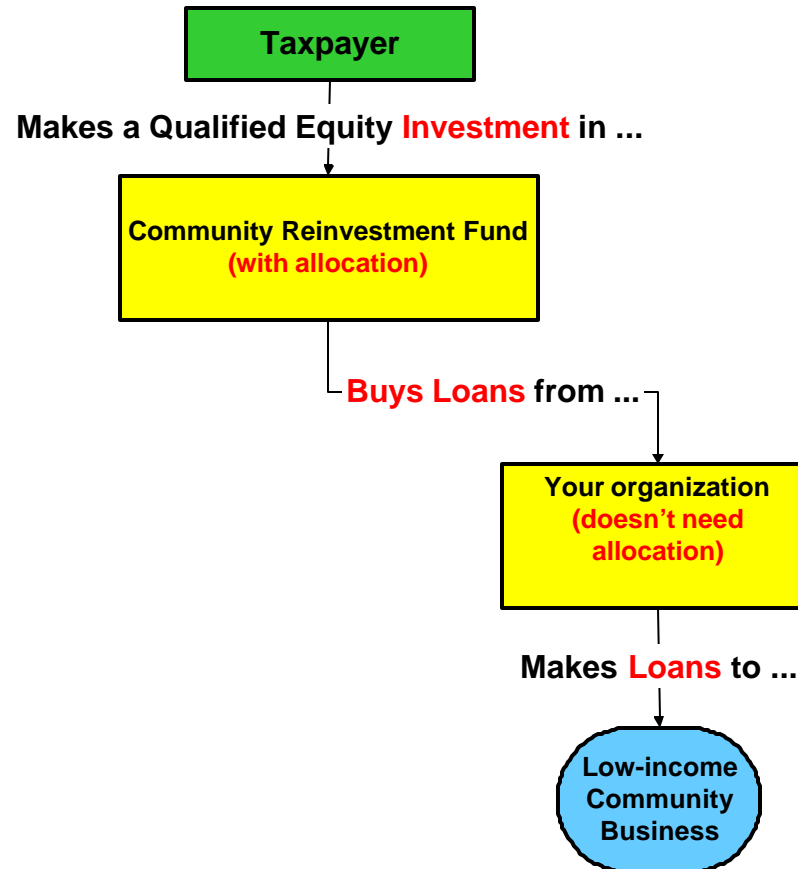
- Requires lender to form for-profit organization to receive allocation of tax credits from CDFI Fund
- Assumes that the lender lines up investors
- Requires lender to report use of credits to investors and IRS



# The “Team Up” Approach



# The Specific CRF “Team Up” Approach



# Team Up Issues

- Requires lender to become a CDE only
- For-profit not required on part of lender
- Investors not required on part of lender
- No reporting to IRS by lender

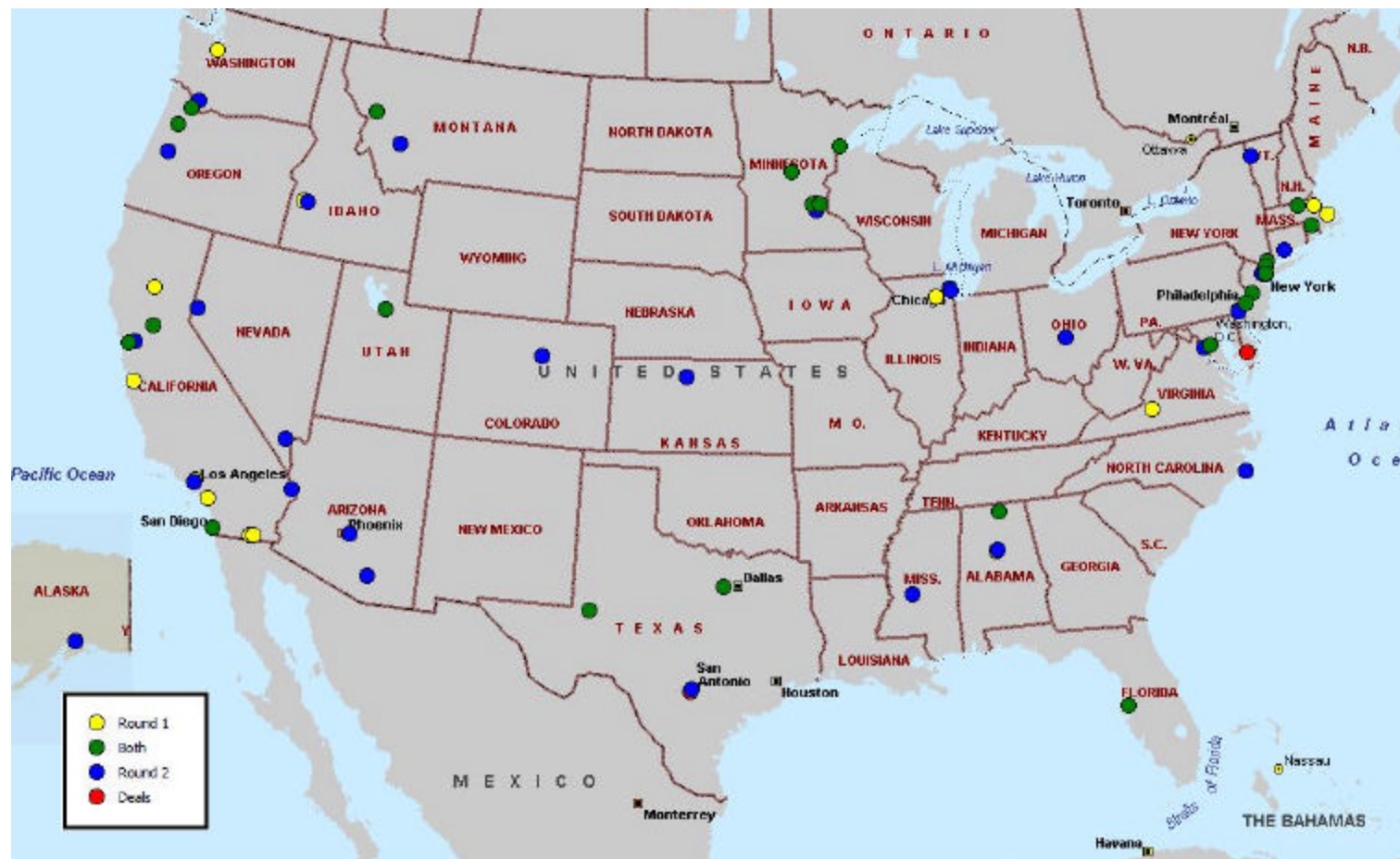


# CRF and NMTC

- **Received two rounds of Tax Credit Allocations**
  - **Round 1: \$162.5 million**
  - **Round 2: \$150.0 million**
  - **Total: \$312.5 million (Largest in the USA!)**



# New Markets Lending Partners



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# **Community Reinvestment Fund Working with CDE Lenders**

## **The CRF NMTC Allocations**

- \$312.5 million Allocation to be used nationally**
- 60+ community development lenders serving communities in 30 states joined in the applications**
- Key strategy: CRF will purchase loans made to qualified active low income community businesses by community development entity (CDE) lenders**



# **Community Reinvestment Fund Working with CDE Lenders**

## **The CRF NMTC Business Theory**

- NMTC works well for loans to businesses that are secured by real estate**
- Many community lenders will want to use NMTC but won't want to apply for or won't receive NMTC allocation**
- It will be costly and difficult to raise investor equity through NMTC**

**Conclusion: Secondary market approach to NMTC addresses these issues**



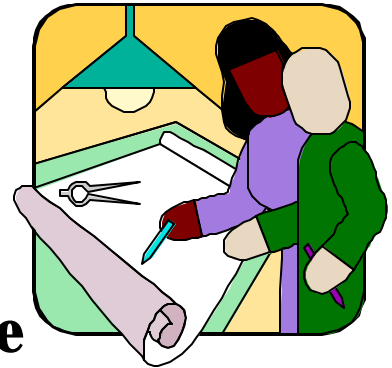


# Community Reinvestment Fund

## Working with CDE Lenders

### The CRF NMTC Strategy

- Assemble a pool of loans originated by many CDEs
- Provide quality control for investors by careful review of QALICB eligibility and managing recapture risks
- Use the leveraged investment approach to minimize cost of capital and maximize investor interest
- Provide loans to QALICBs at rates 1.5% to 2% less than current rates for equivalent loans



# **Community Reinvestment Fund**

## **Working with CDE Lenders**

### **What kinds of loans will CRF buy?**

- Loans to existing businesses (in business for at least two years) for acquisition, renovation or refinancing of real property or equipment**
- Secured by first or second liens on real estate or first liens on equipment**
- Maximum combined LTV of 90%**
- Minimum debt coverage ratio of 1.20 to 1**



# Community Reinvestment Fund

## Working with CDE Lenders

### **What are the special requirements for NMTC loans?**

- 1. Business must be located in an eligible census tract**
- 2. Business must derive at least 50% of income from the conduct of business in eligible census tracts**
- 3. At least 40% of tangible assets must be located in eligible census tracts (Tangible Assets test)**
- 4. At least 40% of employees must work in eligible census tracts (Performance of Service test)**
- 5. *If #3 or #4 are 50% or more, item #2 is deemed to have been met***



# **Community Reinvestment Fund**

## **Working with CDE Lenders**

### **What are the special requirements for NMTC loans?**

#### **Reasonable Expectations Test**

- “The CDE reasonably expects, at the time the CDE makes the . . . loan to the entity, that the entity will satisfy the requirements to be a QALICB . . . throughout the entire period of the . . . loan.”**



# **Community Reinvestment Fund**

## **Working with CDE Lenders**

### **What kinds of loans work best for NMTC?**

- Single site businesses**
  - Tangible assets test**
- Businesses where the work of the employees is clearly performed on-site**
  - Performance of service test**
- Existing businesses that are likely to remain in the community**
  - Reasonable expectations test**



# **Community Reinvestment Fund**

## **Working with CDE Lenders**

### **How can a community lender do business with CRF?**

- CRF will purchase loans from lenders (including CDFI banks and credit unions) that are committed to community development lending**
- Lenders must enter into a Qualified Seller agreement with CRF to sell NMTC and/or non-NMTC loans to CRF**



# **Community Reinvestment Fund**

## **Working with CDE Lenders**

### **How can a community lender do business with CRF?**

- Qualified Sellers must demonstrate to CRF their expertise in originating business loans, including underwriting and loan approval procedures**
- Qualified Sellers may elect to service the loans they sell to CRF if they can demonstrate acceptable expertise and infrastructure**



# **Community Reinvestment Fund**

## **Working with CDE Lenders**

### **What additional requirements will there be for NMTC loans?**

- CRF will give a preference to the lenders who joined its NMTC applications**
- Depending on the loan pipeline and on targeting requirements of CRF's allocation agreement, CRF may seek additional CDEs to sell NMTC loans**
- Lenders must demonstrate their ability to maintain compliance with NMTC requirements**





# **Community Reinvestment Fund**

## **Working with CDE Lenders**

### **Loan Parameters and Pricing**

- **Loans secured by real estate or hard assets**
- **25-year amortization with 7-year balloon or rate reset every 7 years**
- **Underwriting characteristics: maximum CLTV of 90%; minimum debt coverage ratio of 1.20 to 1**
- **Priced at pre-agreed initial spread to index (7-year Treasury + 100 to 150 BP)**
- **Acquired by the CRF net of primary servicing and lender origination fees**



# Community Reinvestment Fund Becomes More Complex

**Community  
Reinvestment Fund**

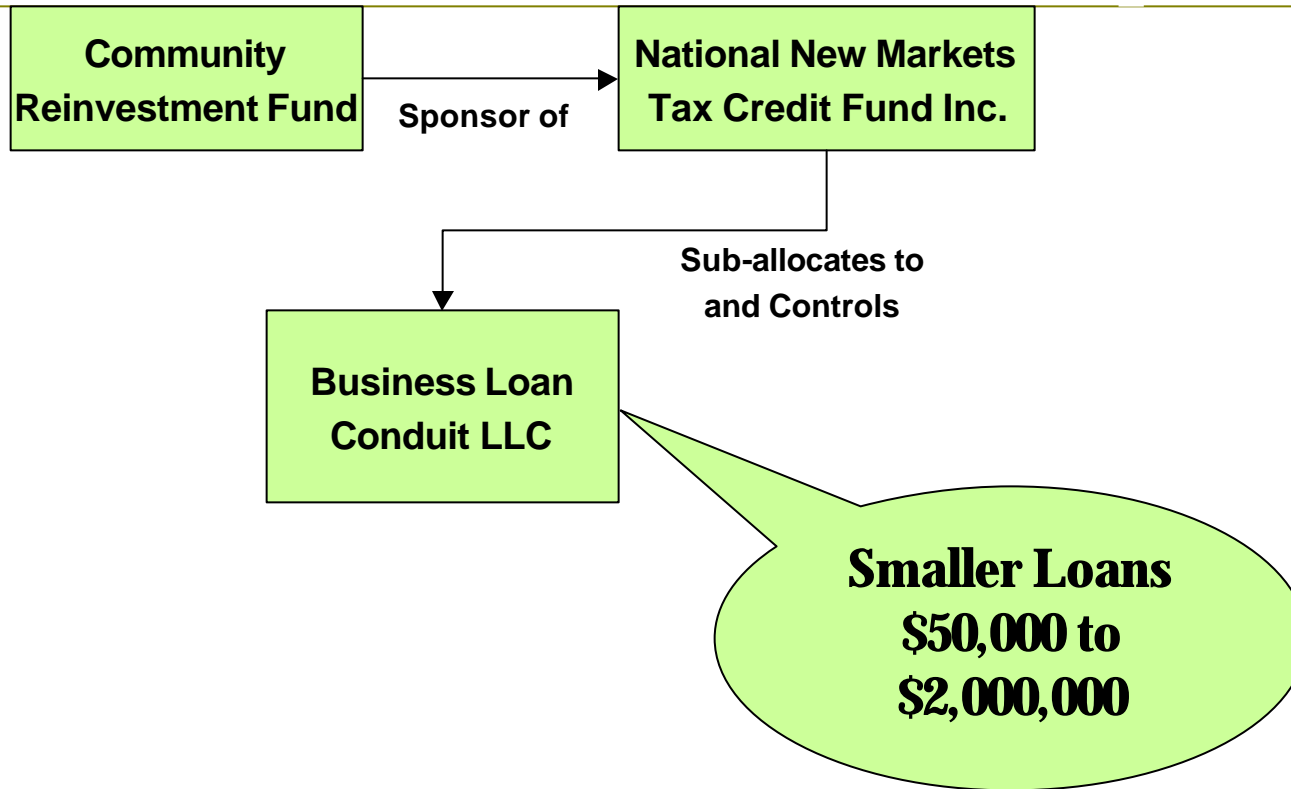


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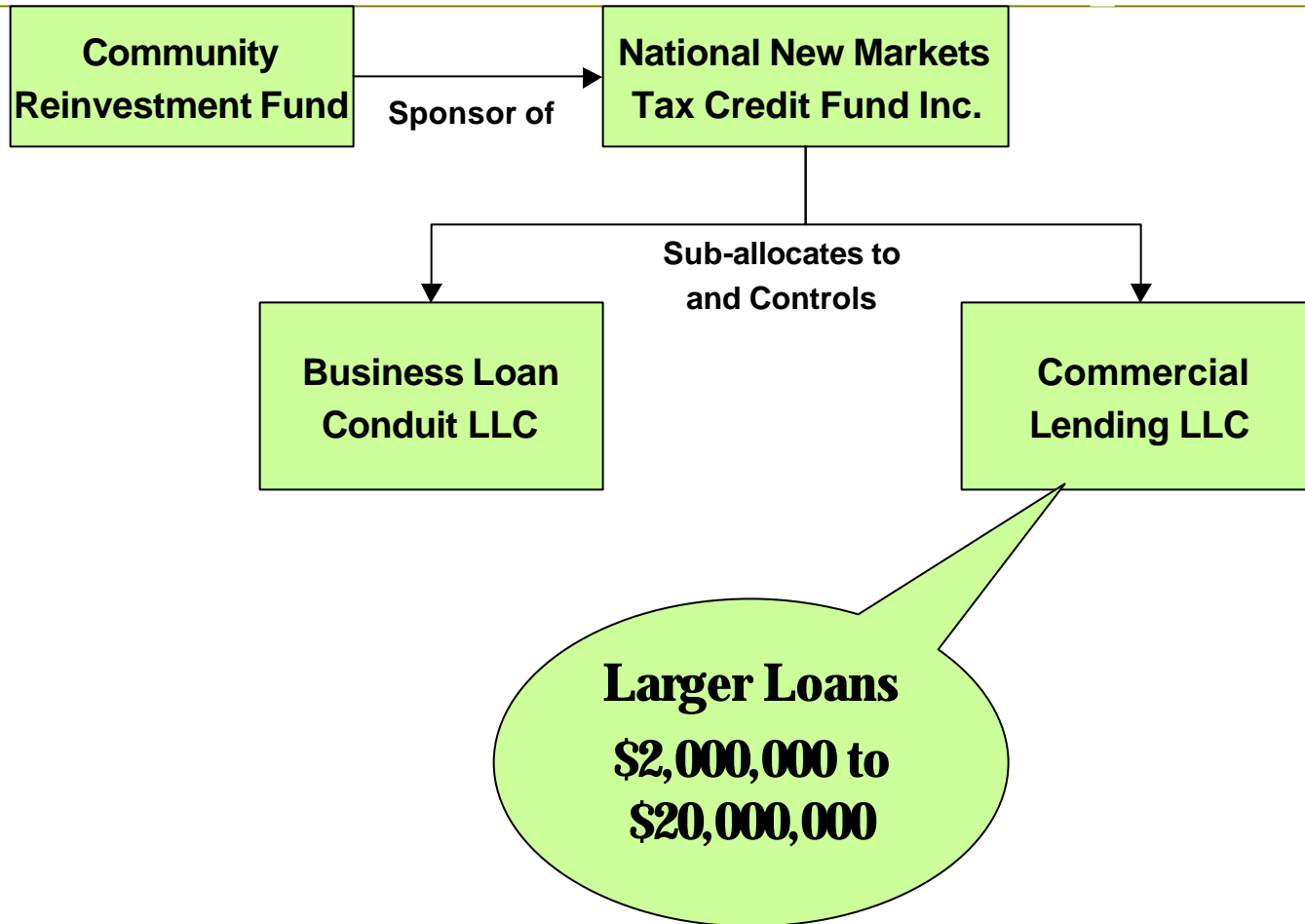
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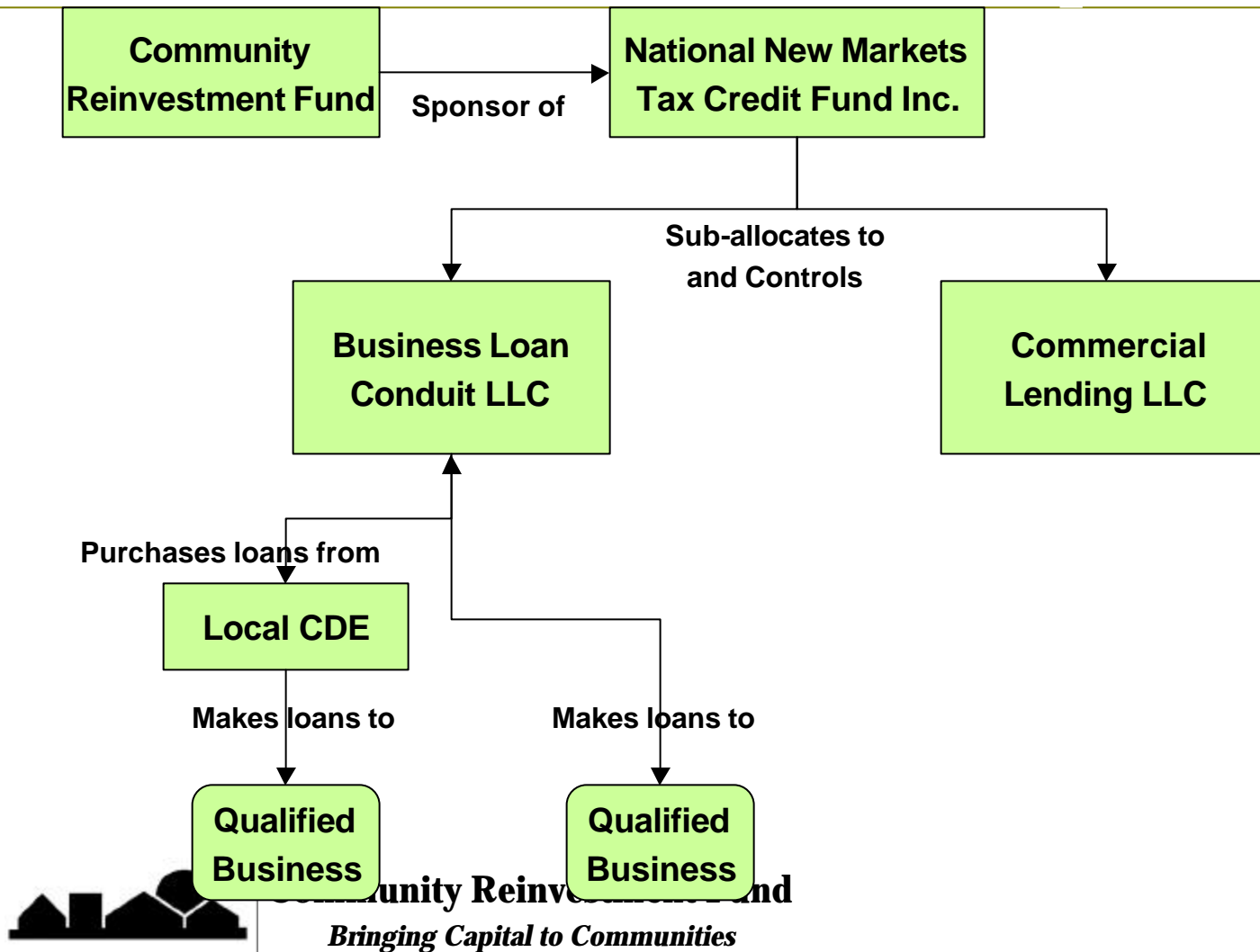
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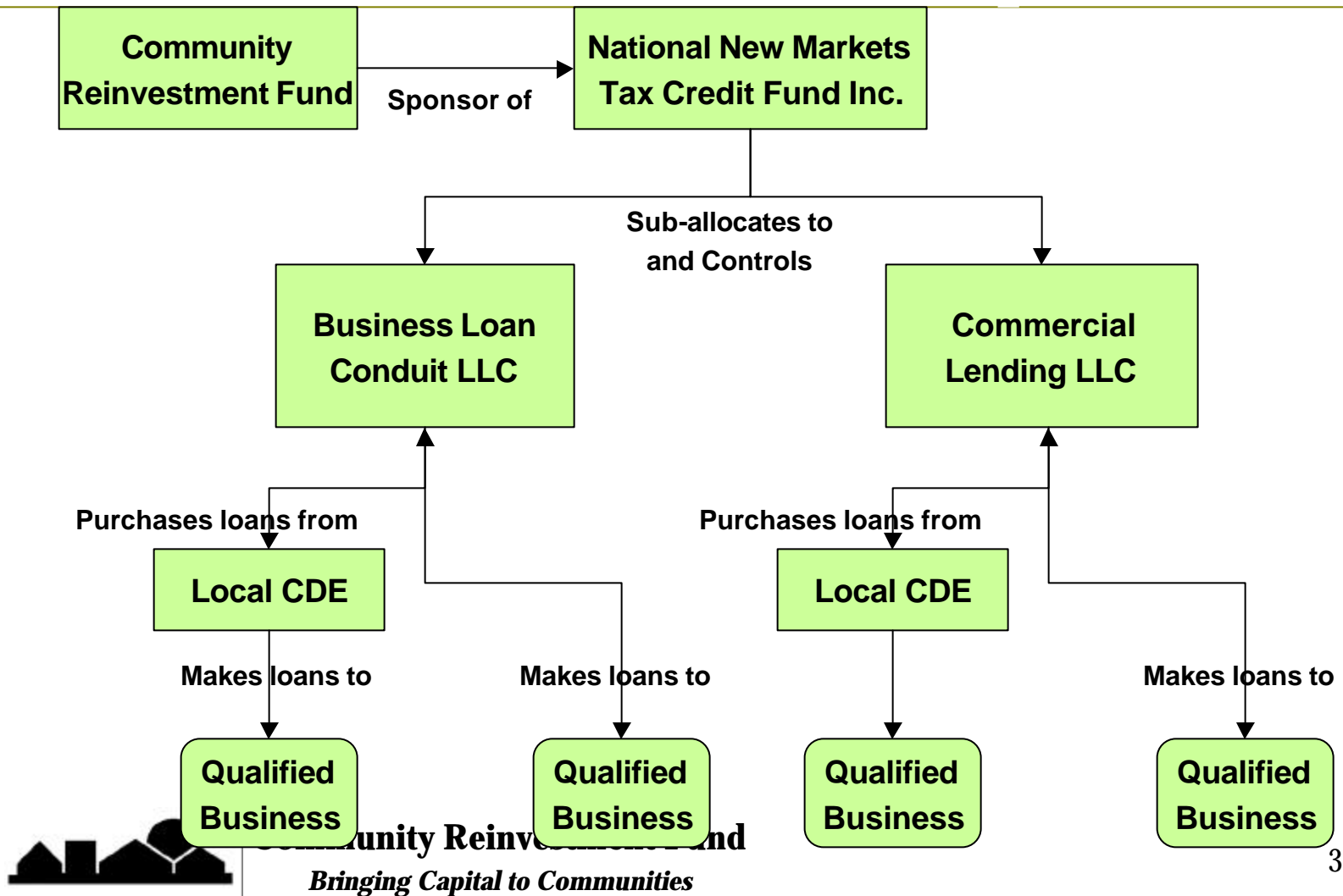
# Community Reinvestment Fund Becomes More Complex



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# Community Reinvestment Fund Becomes More Complex



# For More Information

**If you would like more information about the New Markets Tax Credit program, please contact us.**

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